



Department of Social and Family Affairs

MINISTER URGES RADICAL & INNOVATIVE PENSION PLANS AS STATISTICS SHOW 900,000 WORKERS HAVE NO COVER

**BRENNAN ASKS PENSIONS BOARD TO LOOK AT PENSIONS SAVING INITIATIVE, ALLOWING PENSIONERS
CHOICE & MANDATORY SCHEMES**

The Minister for Social Affairs, Séamus Brennan T. D. today outlined the full extent of the pensions challenge facing Ireland when he disclosed that out of a national workforce of some 2 million people, an estimated 900,000 do not have a private or occupational pension to boost their incomes in retirement.

Minister Brennan said that the reality is that unless urgent action is taken to significantly increase pension's coverage for those at work many of the 900,000 will probably have to rely on the basic State welfare pension as their main source of income in their retirement years.

The Minister said that radical and original solutions will have to be urgently examined as part of the full statutory review of the national pension's strategy that is currently underway. Issues he had asked to be addressed included; examining how best to tap into the savings habit created by the SSIA's in order to devise an attractive pensions package; looking at whether more compulsion should be introduced into the pensions system; and exploring innovative ways of encouraging and allowing people to work past official retirement dates and age limits if they wished to do so.

Minister Brennan made his comments when officially launching The Pensions Board's National Pensions Action Week from May 9th -15th.



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The week long campaign is targeted at increasing awareness of the importance of pensions and at generating greater action amongst consumers in the area of pensions.

He said the reality was that more often than not, it takes a cold, hard look at the pensions statistics to jolt many people into the realisation that decisions they make now will be a major deciding factor in determining how comfortable and rewarding their retirement will be.

Minister Brennan said: “The facts speak for themselves. They are stark and worrying. Unlike other countries Ireland does not have a crisis but it does have a problem that is growing. Out of a current national workforce of some 2 million people, it is estimated that over 900,000 workers do not have a private or occupational pension. Women are particularly vulnerable and face a serious pension problem. Only 46% of women in the national workforce have pensions. When you take away those on public service ‘pensions, then that falls further.”

“In reality, only one third of working women outside the public service have pensions and many have pensions that are far from adequate. We can not leave 900,000 people, many of them vulnerable and facing uncertain retirements, stranded. Decisive, determined and targeted action on pensions is needed, and it is needed now. I firmly believe that Ireland, with its new-found wealth and relatively young population, still has the time and opportunity to plan and structure a pensions system that will guarantee, at the very least, a reasonably prosperous retirement for all our citizens.”

The Minister said that it must be acknowledged that considerable progress had been achieved since 1997 when a series of clear goals and targets were set out. State welfare pensions have increased by 81%, or some 50% above the rate of inflation over the period.

The Government is close to achieving its commitment to take old age pensions to €200 a week by 2007. The Pensions Board strategies to increase awareness and coverage are delivering results as evidenced by the latest figures for Personal Retirement Savings Accounts (PRSAs), which show more than 50,000 accounts have been taken out. The



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recent Social Welfare and Pensions Bill included significant legislation on the operation and supervision of pension schemes.

“But despite the hard work of all concerned, the reality is that we are failing to mobilise the general public and employers to start contributing in the numbers required. There are no easy solutions. Above all else we need to be radical in our approach. We must look at alternative solutions, devise new and attractive products, and set out to fundamentally change the pension landscape. I have asked the Pensions Board to deliver by this summer the statutory review of the pension’s strategy that originally was to be completed by late 2006. I have brought the review forward because I considered that the coverage situation was unlikely to improve dramatically over the next year. I want the review to include specific and targeted proposals.”

Minister Brennan said that he had requested The Pensions Board, as part of this review, to examine a number of possible new innovative routes. These included:

- Assessing whether we need to introduce more compulsion into the system. One possible way forward may be to introduce a compulsory scheme that would incorporate an opt-out clause. This scheme could be split three ways with the employee, the employer and the State contributing. Minister Brennan said his own judgement is that very few would end up opting out, particularly if the State and employers were contributing. It is also very clear that the majority of employees want to be in a pension scheme but are often put off by the complexity of the pensions system and the level of individual contributions they must make.
- Examining ways of tapping into the valuable savings habit the innovative SSIA savings scheme has solidly established. The SSIA’s will begin maturing by the middle of 2006 and between then and the end of 2007 some €15 billion or more will be available to account holders. There is a unique opportunity to encourage investment of SSIA savings by individuals in pensions but to do so will require the devising of an attractively packaged product. One possible route is a pension’s scheme that incorporates a savings element that would allow the individual withdraw



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a percentage in cash every few years while at the same time maintaining an adequate pension scheme.

- Assessing the merits of making retirement at 65 a choice for the individual-in other words giving people options to work longer if they so wish. The reality is that men and women are living longer and leading more active lives in their later years. Working a few years more can make a real difference to income in retirement. Minister Brennan said he wanted the review to look at innovative ways of encouraging and allowing people to work longer if that is what they want and of rewarding this with a bonus system when they eventually retire. He believed that people wanted to have choices and do not necessarily want to have to adhere to a set of inflexible rules. He said that, as with social welfare in general, a one-size fits all retirement regime may not best reflect the needs and wishes of Irish people in the 21st century.

Minister Brennan said there were other difficult and complex issues to be assessed and addressed as short, medium and long term solutions are devised. It would be necessary to factor in a growing belief that the future return on pension investments may not be as high as was forecast a decade or so ago.

In addition, we must assess the impact of tax relief on pensions, currently running at €1.5 billion a year which is, more or less, what the Government annually spends on State welfare pensions.

As currently structured the reliefs may not be achieving the wider pension coverage we need. However, it must be stressed that the tax concessions are an investment in the retirement incomes of those currently at work.

And in the years ahead the coverage figures we are aiming for should see a significant improvement in the numbers of older people with supplementary pensions.



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The Minister said that an overall assessment would indicate that Ireland has a pension's problem. "But it is a problem that is not unique to Ireland. Internationally, as here, Government's are grappling with meeting the challenge of funding pensions for an older population that is generally living longer and healthier lives. In some ways Ireland is fortunate. The problem has not yet become a crisis, as is the case in a growing number of countries. But if left unchecked, the consequences in the years ahead for hundreds of thousands of older people in retirement in Ireland, the State itself and the pensions industry could be alarming".

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